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Tax Expenditure Limitations (TELs) and State Expenditure Structure

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Abstract

Background: Tax Expenditure Limitations (TELs) are limits placed on either outlays of cash or creation of new revenues via tax levy by states. There have been many TEL initiatives since the so-called Taxpayer Revolt of the late 1970s.

Purpose: This paper analyzes the impact of TELs on different types of state expenditures. This study provides a comparative analysis of different types of TELs on the state level and aims to evaluate the effect of TEL policy on state expenditure structures.

Methods: Using panel data analysis, this work finds that states with more stringently binding tax and expenditure limitations-in addition to other financial and political factors-are associated with lower levels of state expenditures on police, parks, natural resources, and highway expenditures.

Results: Looking at 50 states from 2006 through 2010, the relationship between TELs and the selected types of state expenditures described above is both statistically and substantively significant.

Conclusions: TEL initiatives have a defined effect on state budgets and operations. Depending on the type of TEL and the type of outlay or levy, the effect can be detrimental to states.

Approval Page

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Chapter 1. Introduction to the Project

1.1 Statement of research problem

Faced with the fiscal crisis which began in 2008, state governments have been forced to deal with financing necessary public services with limited resources. Taxpayer Expenditure Limitations (TELs) are restrictions on governmental units that place a cap on the amount of revenue that can be raised through taxation, the amount of spending that a governmental unit can engage in, or both (Sun, 2014). The goal of such endeavors is to cut state expenditures by placing strict limits on the amount of revenue that a state can generate through its taxation authority, or by simply limiting expenditures. TELs come in many forms, from municipal regulations to state constitutional amendments. Regardless of their form, their ultimate goals are the same: the limitation of revenue from taxes on a specified consumer base. The rationale for creating this limitation is often to provide relief to a constituency from over-taxation. TELs therefore limit the spending power of a governmental unit, or force it to seek revenue in other ways. State and local governments have relatively few options available to them to exert control over their finances. They can work to increase their tax base or they can cut costs (Yilmaz, et. al., 2006). However, there are always limits on how much a governmental unit can increase a tax base or cut costs to make a significant impact on its bottom line.

The underlying ideology behind TELs is that if the taxation ability of a governmental unit is limited, then spending will also be limited. Theoretically, if spending is limited, this should encourage frugality and inhibit excessive spending. What this ideology does not take into consideration, however, is that enacting a taxing and spending limit may not necessarily create reserve funds, or worse, may severely restrict the ability of a local government to respond to an unplanned emergency situation. Without adequate cash reserves, state governments may not have the tools needed to provide immediate services to their citizens, especially during an unplanned course of events. However, there has been little empirical work examining what political factors are correlated with TEL policy and how it affects state expenditure structures.

1.2 Statement of the purpose of the study

This study aims to evaluate the effects of TEL policy on state expenditure structures and what types of expenditures are reduced during recession. Specifically, this research empirically examines the impact of TELs on state expenditures using panel data for all 50 states during the period of 2006 through 2011. This study employs a Random Effect GLS regression with AR (1) disturbances model that controls for political factors, time trends, population, and serial correlations.

The remainder of this study is organized as follows: the next section explains the definitions, history and variations of TELs in different states, followed by a brief review of literature on the subject in the third section. The fourth section describes the data and methodology and the fifth section presents empirical research findings. The article concludes in the sixth section with a discussion of policy implications and directions for future research.

1.3 Operational definitions

- **Tax Expenditure Limitation (TEL)**- a legal limit passed in an individual state for the purpose of either placing a cap on the amount of revenue that a state can raise through tax levy, the amount of expenditure that can be incurred, or both.
- **Tax Revolt/Taxpayer Revolt**- period in the late 1970s in the United States in which popular sentiment turned against the expansion of government, and indirectly led to the passing of several of the first major TELs.

- **TABOR (Taxpayer Bill of Rights)**- The 1992 Colorado state constitutional amendment that is arguably the most high-profile TEL initiative since the Taxpayer Revolt.
- **Constitutional TEL**- a tax expenditure limitation that is enacted as an amendment to a state constitution.
- **Statutory TEL**- a tax expenditure limitation that is enacted through legislative action, rather than through a popular vote, and is not an amendment to a state constitution.
- **Appropriations**- funds which are earmarked for a particular purpose.
- **Per capita**- per person (in this case, per state resident/taxpayer).
- **Tax levy**- an amount of revenue raised by enacting a tax.
- **Volatility**- the amount of positive or negative change from normal state operations (in this case, as resultant from enacting a TEL).
- **Independent variable-** a variable which is not dependent on any other (in this case, the TELs).
- **Dependent variable-** a variable which is dependent on another variable (in this case, expenditures and debt of many different specified types).
- **Control variable-** a variable which remains constant throughout a study period (in this case, state revenues per capita).

Chapter 2. Review of the Literature

2.1 Themes

2.1.1 History of TELs across the States

The TEL movement has been gaining momentum in the United States, as many states face budget crises that demand drastic action. TEL initiatives are essentially caps on taxation and/or spending that require the approval of either the voting public or elected legislators. These initiatives can be seen as primarily a conservative movement as they seek to limit the role of government in favor of states' rights and sovereignty. One of the earliest examples of TEL in the U.S. occurred in California in the 1970s. Before the economic downturn in 2007, the United States experienced another extended period of recession and inflation that led to a massive public outcry against government and taxation. Before the Tea Party of the 2000s, there was the Tax Revolt of the 1970s. According to Sears and Citrin, the Tax Revolt, "reached its apogee with the passage of Proposition 13 (the "Jarvis-Gann amendment") in California, in June 1978 by a margin of two-to-one (1982, p. 2). This was the first time an amendment such as this was placed on a ballot and won. The aims of this amendment were to provide relief from increasing property tax and to explicitly limit the growth of the government of California (Sears & Citrin, 1982).

The United States has had a marked history of expansion. This has since become emblematic of the American image. Proposition 13 in California marked the beginning of a new kind of American patriotism: fiscal conservatism. This was the first time that one of the United States purposefully and visibly restricted its own growth and expansion. This measure was the result of a popular push for relief from steadily-increasing property taxes in the face of a national recession. However, Proposition 13 represented a new strategy of limiting growth as a means to reducing tax burden.

In 1979, a further amendment, the "Gann amendment" was passed 74% to 26% in California, which further limited the taxation authority of the state (Sears & Citrin, 1982). Howard Jarvis, the other half of the Jarvis-Gann amendment, introduced Proposition 9 in 1980, which was set to further reduce California income tax, but this measure was roundly rejected by the voting public (Sears & Citrin, 1982). It seemed that the first wave of Tax Revolt had begun to run its course in only two years. However citizen frustration at the growth of government through levies on the public has never completely gone away.

TABOR in Colorado

In 1992, the trend towards limiting growth in the United States reached an historic new level. This was the year that a Taxpayer Bill of Rights (TABOR) initiative was proposed in Colorado as a state constitutional amendment that would place tight controls on the way the state government levied taxes and how the revenue was spent. The purported goal was to move control of the state's finances from the government and back into the hands of the taxpayers. Colorado voters had no way of knowing it at the time, but TABOR would set a precedent for a movement that would soon sweep across the nation.

TABOR was placed on the ballot as Initiative 1 on November 3, 1992 (Ballotpedia, 2014). Douglas Bruce, a member of the Colorado State legislature, drafted the proposal and lobbied for its inclusion on the ballot. The initiative was ratified by the approved by the voters and enacted soon after the election. The purpose of the measure was to require broad voter approval for any tax increases that exceeded certain set thresholds. The actual language of the amendment that appeared on the ballot is as follows:

Shall there be an amendment to the Colorado Constitution to require voter approval for certain state and local government tax revenue increases and debt; to restrict property, income, and other taxes; to limit the rate of increase in state and local government spending; to allow additional initiative and referendum elections; and to provide for the mailing of information to registered voters? (Ballotpedia, 2014, n. p.).

The purpose of TABOR was to limit the growth of government through the generation of revenue by subjecting any increase in revenues, "...faster than the combined rate of population increase and inflation as measured by either the cost of living index at the state level, or growth in property values at the local level..." (Ballotpedia, 2014, n.p.). Any excess funds were to be set aside for the funding of educational services and for a contingency fund to use for projects as needed.

There have been many conflicting reports about the success of TABOR in Colorado, mostly divided by political affiliation. However, many sweeping changes have taken place in Colorado in response to TABOR since the passing of the amendment. Amendment 23 was added to the Colorado State constitution in 2000. This stipulated that education spending should not be governed by the tenets of the TABOR amendment, and should proceed at an appropriate rate regardless of revenue forecasting. This was an effort to negate some of the unintended detrimental consequences of TABOR on publicly-delivered education.

Further reform came to TABOR in 2005 in the form of Referendum C, which, among other changes allowed for lawmakers to use the best of the previous five years worth of revenue data in order to allocate spending, rather than limiting their focus to the previous year. The goal of this referendum was to smooth out the potentially devastating effects of any short-term aberrations on the state's economy. Additionally, there have been lawsuits filed regarding the constitutionality of the TABOR initiative, the most recent of which, Kerr v. Hickenlooper, resulted in a U.S. Court of Appeals for the Tenth Circuit decision that the "…general assembly has the standing to challenge the constitutionality of the TABOR amendment…" (Ballotpedia, et. al., 2014).

The Bell Policy Center created a document in 2003 to review the first ten years of Colorado under TABOR. The Bell Policy Center recognizes that the goal of TABOR was to restrict the growth of government and they do agree that the proponents of TABOR were successful in doing so. The aim of their study is to determine whether or not the effects of this tightening of control over government growth have been beneficial for the citizens of Colorado and whether or not this is a good model to adopt across the country.

TABOR in its first ten years, according to the Bell Policy Center, did limit the growth of government in Colorado as it was intended to do. In this way, the amendment succeeded. However, according to the authors, some unintended consequences of this structurally limited growth were Colorado's inability to successfully meet unexpected needs of the citizenry and to respond quickly to unanticipated phenomena like economic downturns (Baker, et. al., 2003). Additionally, TABOR has created an environment in which not all governmental programs are impacted equally. Higher education and public health have suffered the most under TABOR. However, due to their dependence on outside forces, such as federal legislation and other mandates, programs like corrections and Medicaid have been able to avoid much of the negative impact thrust upon other programs under TABOR (Baker, et. al., 2003). This example highlights the lack of equity built into the TABOR initiative.

Perhaps most strikingly, Colorado, "…now ranks 43rd among all states in total tax collection as a percentage of income…" (Baker, et. al., 2005, pg. 4). While it is not clear that this is due entirely to the effects of TABOR, one thing is clear: Coloradoans have paid less in local and state taxes since the passage of the amendment. While placing restrictions on the amount of taxes that the government can levy was one of the core tenets of TABOR, it was not designed to reduce the amount of tax collection as a percentage of citizen's income to a point where essential services would be reduced.

The Bell Policy Center also conducted an experiment with regards to the relative amount of tax dollar spending that Colorado engaged itself in during the first ten years of TABOR. Ten peer states were chosen for comparison by the Center, and analysis revealed that Colorado's increases in spending were less than half of the average growth reported in the peer states (Baker, et. al., 2003). This created a disconnect between the rate at which the income of the state was increasing and that by which the state spending was decreasing during the same time period.

In enacting TABOR, which set out to create limits on the state government's taxation authority along with their ability to spend tax dollars commensurately with increasing revenue or increasing need, the State of Colorado effectively diminished their legislators' powers to enact make decisions (Baker, et. al., 2003). While this on the surface may represent a success for the proponents of the amendment, it also represents the beginning of some long-term unintended negative consequences: namely that legislators now have much less leeway to react to and resolve high-impact infrequent occurrences such as recessions and emergencies and mitigate disasters. What power they once had to enact quick legislation to keep government on track during a crisis situation is now severely diminished in favor of fiscal conservativism. As legislators gradually become less and less powerful in setting the fiscal and budgetary policies for the state, their effectiveness in actually governing the state will diminish commensurately.

One of the few scholarly dissertations on the subject of TABOR in Colorado was completed by Zak Brewer at the University of Denver in 2008. Brewer examines the effects that TABOR had on Colorado and its citizenry during the recession of 2001 through 2005. Brewer posits that due to the restrictive nature of the TABOR amendment, Colorado government was unable to quickly respond to the effects of the recession. Lacking knowledge on how long the recession conditions would persist, Colorado's government was forced to create piecemeal solutions, year to year, using the limited legislational authority they still had at their disposal under the restrictions of TABOR. Brewer states, "...many state departments are caseload driven, and thus their budget needs vary with the number of cases...To the extent that some departments experienced budget growth rates below [the threshold]...while simultaneously experiencing caseload growth [above the threshold]...services delivered...were reduced..." (Brewer, 2008, p. 8). Even if governmental growth stayed well below the threshold that TABOR policy dictated, nuances in the way that some governmental services are apportioned out can create deficiencies that the framers of the amendment may never have imagined.

Brewer acknowledges the importance of voter-led referenda in the democratic republican government that the United States enjoys. He points out that without such referenda, the voters would be forever at the mercy of elected officials, who once elected, were free to create and approve laws at their leisure. An essential part of the global checks and balance system, these types of referenda are at the heart of what makes the United States a successful experiment. He does go on to point out some of the key differences between direct democracies and republican democracies or representative democracies. In a representative democracy, voters elect representatives who vote on laws using their purported expertise on which they campaign and win elections. In a direct democracy, voters vote directly on every issue, which, given the varying educational and social-awareness of the voting bloc, may lead to wildly varied results on issues. An informed voter makes the best decisions, and not all voters are equally informed – problem that can lead to disaster when initiatives are voted for directly (Brewer, 2008). Brewer argues that these kind of voter-led referenda, while a valuable part of the checks and balances that keep our system strong, may lead to the implantation of flawed laws. Some of the unforeseen negative effects of TABOR in Colorado can be evidence of just this type of phenomena (Brewer, 2008).

The Economic Policy Institute issued a briefing report on the economic effects of TABOR after a vote in Colorado in 2005 led to a five year suspension of TABOR. To analyze why this happened, they engaged in an empirical study of TABOR's effects on Colorado's economy during the time it was in force. They utilized an empirical strategy of comparing Colorado with other similar states to analyze their pre- and post-TABOR outlooks. For purposes of their study, 1978-1992 was pre-TABOR and 1993-2003 was post-TABOR. Growth in real per capita income in Colorado rose from 1% to 2.10% in the pre- and post-TABOR climates (McGuire, T. J. & Rueben, K. S., pg. 6). However, this growth rate was found to be typical of the surrounding region (McGuire, T. J. & Rueben, K. S., pg. 6).

Colorado also experienced a growth in employment rates from 2.39% to 2.42% during this period, however most (4%) was concentrated in the first post-TABOR year while 1998-2003 saw figures of less than 1% (McGuire, T. J. & Rueben, K. S., pg. 7). This again is reflective of other states in the region. The authors then used regression analysis. The authors found that in using both comparative and regression analysis that TABOR did not have a significant positive impact on the economy of Colorado (McGuire, T. J. & Rueben, K. S, pg. 10). Colorado did, in the authors' estimation, experience a five year short-run boost, but this trend did not continue.

The authors actually found that during 1998-2003 Colorado's employment growth was actually less than similar states in the region.

TABOR is stricter than other TELs because it was enacted as an amendment to the state's constitution rather than as a statutory law (McGuire, T. J. & Rueben, K. S., pg. 2).

Since 1992's successfully-implemented TABOR amendment in Colorado, similar ideas have popped up in many other states. These TELs initiatives in other states are examined in detail below.

TEL in Alaska

In 1982, Alaska enacted a constitutional TEL (NCSL, 2010) that was tied in directly to the metrics of inflation and population (Shadbegian, 1996). Alaska's TEL called for immediate refunds of surpluses (New, 2001). The cap on appropriations was set up to change annually based on changes in population and inflation (Deller & Stallmann, 2006). This TEL requires a supermajority in order to override (Bradley & Lav, 2005). Total expenditures as of 1982 were $2.5 billion (Bradley & Lav, 2005). As of 2005, "...state spending remain[ed] far below that inflation-adjusted level." (Bradley & Lav, 2005, p. 4). In the case of Alaska, at least from 1982 to 2005, the TEL initiative was fiscally successful in achieving its stated goals.

TEL in Arizona

Arizona's history with TELs goes back nearly to the beginning of the movement. In 1978, Arizona enacted a constitutional TEL, which was approved by the voters of the state, which limited the appropriations of state tax revenues (Stansel, 1994). The specific limitation in this TEL was that tax expenditures are not allowed to exceed seven percent of state personal income (Stansel, 1994). In order to override the provisions of the act, a two-thirds majority approval from the state legislature was needed (Stansel, 1994). In 1973, five years before the passing of their first TEL, per capita spending was $500, in the year of the TEL, 1978, per capita spending was $811, and in 1983, five years after the TEL initiative was passed, per capita spending was $1,085 (Stansel, 1994).

Despite this notable increase in per capita spending after the TEL initiative was put into place, there were additional calls for TEL legislation in the following years. Additionally, a report by Goldwater Institute in 2005 made a call replacing this TEL with a more stringent initiative in the style of Colorado's TABOR. The Goldwater Institute reported that tax levies had increased in the period between 1978 and 2005, and that the tenets of the 1978 TEL were too lenient.

Three initiatives containing elements of TEL ideology were in play in Arizona during 2011: SCR 1026 was a proposed constitutional amendment that would function essentially as TABOR in Arizona if passed. Two other bills, HB2707 and SB1231, were being debated concurrently, which set defined limits on taxation and spending much in the vein of TABOR, but without the constitutional consequences (Johnson & Williams, 2011). Between 2008 and 2012, Arizona state services were subjected to massive cuts as state government responded to tremendous budget shortfalls as the result of the economic downturn (Johnson & Williams, 2011). The amount of the cuts totaled roughly 17% of Arizona's total budget (Johnson & Williams, 2011). The proposed base year for SCR 1026 was 2013, and like other constitutional amendments, would have required a two-thirds majority in each house, approval from the Arizona governor, and a statewide referendum to override (Johnson & Williams, 2011). This would have made responding to emergent situations quickly much more difficult.

Arizona's 1978 TEL state constitutional amendment is still in place. Proposition 101, as it was called on the November 7, 1978 ballot, was voted into law by a margin of 78.2% to 21.8%

(Ballotpedia, 2015). Arizona's TEL was enacted as an amendment to the Arizona Constitution, Article IX (Ballotpedia, 2015).

TEL in California

California is the state in which the taxpayer's revolt is said to have begun in modern times. The taxpayer revolt that ultimately led to the tax expenditure limitation movement has been traced back to homeowner unhappiness with rapidly increasing property taxes during the 1970s. The California Supreme Court ruled that, "...reliance on local property taxes to finance public schools was unconstitutional because of the wide disparities in taxable property among school districts," (Fischel, 1989, p. 465) in the case of Serrano v. Priest in 1971. This ruling changed the way that state taxation could be used to cover needed state expenditures. Since there were no clear rules on how to better handle the issue of inequality in the collection and application of property taxes in paying for school expenditures, many communities took the problem into their own hands.

When the state of California attempted to move forward in compliance with the Serrano ruling, problems arose. Funds were "added to a previous program so that poor districts got proportionately more money," (Fischel, 1989, p. 465). This led to unrest among voting property owners who felt that expenditures were being spent in ways contrary to their wishes. Furtehr decisions such as Serrano II, required that spending on each student across all districts should be within a $100 range of each other (Fischel, 1989). Additionally, Serrano III, and other laws of the late 1970s, placed additional restrictions on wealthier districts, transferring the tax expenditures further to poorer districts (Fischel, 1989). Fischel's hypothesis on this is that, "Proposition 13 was a rational response by voters who were faced with the implementation of Serrano" (1989, p. 467). This was, simply, a backlash from voters, upset with the way the expenditures of their tax revenues were being implemented. They wanted more say on how their money was spent, and this led to the feeling that government bureaucrats were engaged in overspending. Proposition 13 had larger majority support in higher income brackets (Fischel, 1989), showing that taxpayer revolt may have resulted from higher income taxpayers upset over having taxes levied upon them to pay for social causes that did not interest them. California's constitutional TEL, enacted in 1979, is still in place as of the writing of this paper (NCSL, 2010).

TEL in Connecticut

In 1991, Connecticut passed a statute-based TEL designed to limit spending, which would limit spending to a formula based on the greater of either the average of growth in personal income during the previous five years or the previous year's change in inflation (Deller & Stallmann, 2006). In 1992, Connecticut further strengthened their commitment to the TEL movement by passing a constitutional amendment that would require a two-thirds legislative majority to override (Stansel, 1994). In the years of 2000 through 2004, property tax collections per capita actually went up from \$1,742 to \$1,944, with intergovernmental aid from state relatively flat, but slightly decreased, going from \$1,083 in 2000 and \$1,010 in 2004 (Dye and Reschovsky, 2004). Dye and Rechovsky posit that local governments respond to, "...cuts in state aid by raising property taxes," (2004, pg. 87).

Connecticut's spending cap "applies to all state spending except payments on state debt, state grants to distressed municipalities, and first year expenditures on federal mandates or court orders," (Brome & Saas, 2006, p.6). Possibly due in part to this cap, the transportation fund and general fund expenditures of Connecticut increased by 6 percent between 1990 and 2005 (Brome & Sass, 2006).

TEL in Delaware

Delaware instituted a constitutional TEL of its own in 1978 (NCSL, 2010). Delaware's TEL limited its expenditures to "…98 percent of estimated general funds plus the previous years' unencumbered funds," (Shadbegian, 1996, 23). During the 1990 – 1991 U.S. recession, Delaware experienced tax increases and expenditure shortfalls (Sobel & Holcombe, 1996). Expenditure shortfalls were $9.2 million in 1989, $13.2 million in 1990, $48.3 million in 1991 and $144.2 million in 1992 (Sobel & Holcombe, 1996, pg. 34). Tax increases that may have been instituted due to these expenditure shortfalls were $9.2 million in 1991 and $83.6 million in 1992 (Sobel & Holcombe, 1996). There were no tax increases in 1989 or 1990 (Sobel & Holcombe, 1996). Sobel and Holcombe discuss the purpose of rainy day funds in state governments, which are to act as safeguards against unexpected shortfalls or disasters which are not part of normal regular operations or targeted strategic growth (1996). TELs are set up in part to help create rainy day funds. If rainy day funds are supposed to "help a state maintain its expenditure growth while reducing its need to raise taxes during a recession," (Sobel & Holcombe, 1996, pg. 33). If this is the case, then during the 1990-1992 recession, the Delaware TEL failed in its mission.

TEL in Florida

Florida activists have been attempting to enact TEL legislation for at least twenty years. In 1994, pro-TEL supporters submitted a petition to allow a proposal for a constitutional amendment to be put before state voters which would have required voter approval for any subsequent tax increases or new tax legislation (Poulson, 2004). This was rejected by the Florida Supreme Court (Poulson, 2004). The Florida legislature then submitted their own TEL amendment before voters on a statewide ballot that would "…limit [revenue] linked to the growth of state personal income," (Poulson, 2004, p. 12).

Florida is a "fiscally conservative state" (Holcombe, 2015, p. 3), without personal income tax or estate tax. Additionally, Florida is "one of the very lowest states in state government expenditures per capita" (Holcombe, 2015, p. 3). The constitutional revenue limitation which was put into place by the state legislature after the failed 1994 bid for such a TEL, is, according to Holcombe, "…weaker…" (Holcombe, 2015, p. 14) than the original proposed TEL, and subsequently, the "…constitutional cap on state revenues….has never been binding," (Holcombe, 2015, p. 14).

After intense deliberation throughout 2008, Florida tabled a new, more stringent TEL initiative, concerned about reduced funding for police, fire, roads and schools (Ray, 2008, n. p.). Many in Florida had grown concerned about the continued viability of TEL for Florida, especially after reviewing the issues that were encountered with Colorado's TABOR amendment. In a state such as Florida which is often hit with powerful hurricanes, TELs could potentially restrict spending in such a way to increase risk and reduce the flexibility needed to respond quickly to unexpected phenomena. Further, powerful unions such as AFSCME Florida opposed the new bill. The Taxation and Budget Reform Commission declined to put the issue on a ballot. The very voters that this bill would have further empowered were not allowed to vote on it.

Eventually, this sentiment led to the placing of Florida's Amendment 3 on the November, 2012 ballot. Arizona governor Jan Brewer had previously vetoed a similar measure the year before, but still the conservative movement continued to build momentum throughout the state. Again, estimates were touted from both sides of the aisle about the possible effects of this type of amendment. The legislature itself presented calculations showing that if the amendment had been in place since 1994, Florida would only have exceeded the cap once, and that revenues were projected to fall under the cap through 2020 (Deslatte, 2012). On the other hand, the Center of Budget and Policy Priorities calculated that under the same circumstances, Florida state revenues would have been reduced by $11 billion during a decade, with expected cuts hitting education the hardest, and the threat of Florida's credit and bond ratings diminishing (Deslatte, 2012). This proposed amendment was eventually put up for voter referendum in 2012, where it was defeated.

TEL in Hawaii

Hawaii instituted an expenditure-limiting TEL in 1978 (Shadbegian, 1996) as a constitutional initiative (Kousser, et. al., 2008). The expenditure limitation applies to the state general fund and appropriations (Stansel, 1994). Specifically, the limitation prohibited yearly growth from exceeding a combination of the annual rate of change in state personal income for an aggregate total of the previous three calendar years (Stansel, 1994). To override, two thirds of the state legislature would need to approve (Stansel, 1994). Per capita spending in state total general expenditure increased by $412 in the first five years after its 1978 enactment (Stansel, 1994). This result is obviously not what was intended by the framers of this constitutional tax expenditure limitation.

TEL in Idaho

In 1980, Idaho enacted a legislative statutory TEL tied to income (Kousser, et. al., 2008). The specific limit is that expenditures are not allowed to exceed state personal income by 5.33 percent (Stansel, 1994). In order to override this TEL, two thirds of the legislature must approve (Stansel, 1994). During the five years after this TEL was introduced, per capita spending would increase from $971 to $1250 (Stansel, 1994). What is interesting about the Idaho statutory TEL is that one-time expenditures are exempt from this limitation (Deller & Stallmann, 2006). During the fiscal crisis of 1990 – 1991, there were no expenditure shortfalls, however, there were several tax increases including, $13 million in 1989, $10 million in 1990, $13 million in 1991 and $26.2 million in 1992 (Sobel & Holcombe, 1996). Surpluses that were used during this same recessionary period totaled $59 million between 1989 and 1992 (Sobel & Holcombe, 1996). During this one particularly rough patch in US economic history, Idaho, while observing its 1980 statutory TEL, did not increase expenditures, but did increase taxes and use surpluses in the millions of dollars.

In more recent years, Republican Idaho State Representative Ken Roberts introduced a proposed TEL constitutional amendment in 2004. Two other republican State Representatives, Lenore Barrett and JoAnn Wood had also proposed TABOR-styled initiatives before this (Times-News Editorial Staff, et. al., 2004). The amendment would enact a cap on state appropriations to no more than the level of the previous year plus inflation and the percentage change in population (Times-News Editorial Staff, et. al., 2004). As with most TEL initiatives, the planned extra funds would be placed in reserve funds for emergencies, subject to referendum or legislative vote. Conversely, if funds are not sufficient to cover debts, a referendum would take place to make the necessary appropriations. This Idaho TEL amendment never made it to the ballot.

TEL in Indiana

Indiana adopted a statutory TEL in 2002 which sought to limit spending by setting a spending cap to be determined by a formula on a biennial basis (Deller & Stallmann, 2006). According to Conlan, et. al., Indiana's TEL is of the least possible stringency and is not subject to line-item veto (2015). After the recession of 2007, many states had problems with both revenues and expenditures. For taxes enacted in 2008 and 2009, Indiana had, "…raised taxes by more than 5 percent of the prior year's colections (Johnson, et. al., 2010, p.1). Further, for the same period, Indiana increased the sales tax by 1 full percent, up from 6 percent, resulting in an overall increase of revenue of nearly $1 billion (Johnson, et. al., 2010). This is another instance of a TEL not doing what it was set out to do. It is perhaps because of the lack of stringency of this TEL that it was not successful, but the analysis of the 2008 – 2009 tax activity, it is clear that the TEL had failed in at least part of its stated purpose.

TEL in Iowa

In 1992, the legislature of the state of Iowa passed a statutory TEL (NCSL, 2010), (New, 2001). This TEL limited appropriations to 99% of the state's yearly estimate of adjusted revenue (Deller & Stallmann, 2006). With this TEL in place, the budget gap for Iowa in fiscal year 2009 was $350 million (McNichol & Lav, 2008). It is important to note that this gap is before accounting for the TEL (McNichol & Lav, 2008). In 2005, Schunk and Woodwood posited that Iowa would not have, "…adequate reserves to weather a protracted recession without tax hikes…" (2005, p. 113). This was two years before the 2007 recession began and 13 years after the initiation of Iowa's TEL.

TEL in Louisiana

Louisiana also had a very early TEL initiative in place. Louisiana's TEL was implemented in 1979, along with similar measures that year in California, Nevada, Utah and Washington (Shadbegian, 1996). The 1979 TEL set a revenue limit, capping the growth at a limit equal to the growth of state personal income (Shadbegian, 1996). There were no provisions for immediate returns of surpluses under this TEL (New, 2001)

Additionally, a constitutional TEL was adopted in Louisiana in 1991 capping revenue, and another in 1993 capping spending (Kousser, et. al., 2008). They were both tied to income (Kousser, et. al., 2008). The 1993 constitutional TEL was enacted via referenda, and like the 1979 TEL, allowed for no immediate returns of surpluses (New, 2001). During the recession of 1990-1991, Louisiana experienced expenditure shortfalls of 49.7 million in 1989, and increased taxes by 320 million in 1989, 254 million in 1990, 359.8 million in 1991 and 662.80 million in 1992 (Sobel & Holcombe, 1996). So, while Louisiana did not experience much expenditure shortfall between 1989 and 1992, they ultimately increased taxes by hundreds of millions of dollars per year during that same period (Sobel & Holcombe, 1996).

TEL in Maine

November 3, 2009 saw the defeat of a proposed TABOR amendment on the ballot in Maine. The proposal was entitled Question 4 (Lav, 2009). The proposal, entitled "An Act to Promote Tax Relief" was similar in spirit to a TABOR referendum that had been voted down by Maine citizens in 2006 (Collins and Lav, 2006). This proposed amendment would limit the expansion of state spending to an amount commensurate with population increases and inflation (Saviello, 2009). 20 percent of the excess in general and highway fund budgets would be transferred to a "rainy day" fund, and the remaining 80 percent to a tax relief fund (Saviello, 2009). This amendment has not currently passed.

This is not to say that Maine does not have a TEL in place, just not a constitutional initiative. Maine enacted a statewide statutory spending limit in 2005 which places limits on state appropriations relative to average personal income growth (Waisanen, 2010). It is important to note here that while Maine currently operates under this spending limits, voters have roundly rejected proposed constitutional amendments to require approval from voters before any tax increase could be enacted and other such TABOR-like measures in both 2006 and 2009.

TEL in Massachusetts

In 1986, Massachusetts attempted to implement a TEL that would place a limit revenues to the, "...growth in state employee wages [and] require that state revenues must decrease if local revenues increase, and vice versa," (Blankenau & Skidmore, 2002, p. 64). Ultimately, a statutory TEL which limited revenue generation was pushed through as an initiative, and remained in place in Massachusetts from 1986-2002 (Mitchell, 2010). In 2002, it was amended to tie its limits to inflation (NCSL, 2010). Prior to this, Massachusetts had in place a measure called Proposition 2 ½ which was passed in 1980 and limited increases in property taxation to 2.5% a year (189th General Court of the Commonwealth of Massachusetts, 2015). It is clear from this history that Massachusetts has been involved in that taxpayer revolt movement nearly since its inception.

TEL in Maryland

Maryland State Delegate Warren Miller introduced a TEL in the form of HB 36 in 2009. Support came early from the National Taxpayers Union (NTU) who calculated a $9 billion dollar savings that would have occurred between 2006 and 2009 if the TEL bill had been passed three years earlier (Moylan, 2009, n. p.). Maryland does not currently have any major statewide TEL in place.

TEL in Michigan

In 2007, the Senate Fiscal Agency of the State of Michigan began to estimate what the effects of TABOR may have been on their state had it been enacted during the 1995—1996 fiscal year. Their determination was that the 2006—2007 fiscal year would have seen state appropriations approximately $68 million less under TABOR (Association of Governing Boards, 2014). The findings of the Association of Governing Boards of Universities and Colleges, a group with the expressed purpose of, "...advancing the practice of citizen trusteeship..." (Association of Governing Boards, 2014), state that TABOR would have had other unforeseen consequences on Michigan had it been in force during this time. Namely, that between the fiscal years of 1995—1996 and 2006—2007, state appropriations were in excess of what the TABOR limits would have been by as much as $9 billion in some years. TABOR would have "...limited appropriations to more than $2 billion less than actual appropriations." (Association of Governing Boards, 2014).

Eventually, after the measure had been proposed, the Michigan Board of State Canvassers met and voted to not certify the TABOR initiative. The reasons that they gave were somewhat ambiguous. They said that they were concerned over the amendment language and they believed that there were duplicate or invalid signatures in the petition to put the amendment up for a vote (Association of Governing Boards, 2014).

Michigan is not without any TEL constitutional initiatives, however. Michigan has had a constitutional TEL in place since 1978, near the beginning of the taxpayer revolt movement. This TEL limited revenue to, "...1% over 9.49% of the previous year's state personal income," (Waisanen, 2010). TEL activists in Michigan may simply believe that their existing TEL is not stringent enough for their state's needs.

TEL in Minnesota

TABOR was introduced into the Minnesota House of Representatives on March 22, 2006 as House File 3840 (Minnesota Budget Project, 2006). The Minnesota TABOR proposal would have applied to all state and local governments, with school districts singled out for separate and more stringent spending limits (Minnesota Budget Project, 2006). Growth in spending, like with many other of these types of proposals would have been limited to a combination of inflation plus population growth and be subject to change only by referendum. This includes any increases in school district levies needed to offset enrollment changes (Minnesota Budget Project, 2006). The previous year's spending was to be the benchmark for all calculations. A referendum could only be achieved by three-fourths of the members of each house voting to refer the measure for popular voting (Minnesota Budget Project, 2006). The bill was not put up for hearing during the 2006 Minnesota legislative hearing and has not been proposed since.

TEL in Mississippi

Mississippi enacted a TEL via the state legislature in 1992 (New, 2001). However, Mississippi already had a statutory TEL on appropriations, which was enacted a decade earlier in 1982, which limited appropriations to 98% of the state's projected revenue (Deller & Stallmann, 2006). Further, Mississippi has a long-standing tradition of attempting to limit the taxation authority of the state, going back even prior to the so-called taxpayer revolt era of the late 1970s. Mississippi required a three-fifth supermajority in order to increase any taxes in the state going back as far as 1970 (Heckleman & Dougherty, 2010). Clearly, Mississippi has felt strongly about limiting the state's ability to increase taxes for quite some time.

TEL in Missouri

Missouri has had a spending cap TEL in place since 1980 (Shadbegian, 1996). This spending cap was a constitutional initiative that was passed by the voters of the state (Stansel, 1994). An additional constitutional revenue limit was passed in 1996 (Kousser, et. al., 2008). Per capita spending went up from $736 in 1980, the year of the TELs implementation, to $1,082 in 1985 (Stansel, 1994). This continued Missouri's upward trend of per capita spending that had been going on since at least 1975 when per capita spending was $466 (Stansel, 1994).

TEL in Montana

Montana has had an expenditure limitation on the books since 1981 (Shadbegian, 1996). It was a statutory initiative passed by the state legislature (Stansel, 1994). In order to authorize further expenditures, either a declaration of emergency from the governor is required, or approval from two thirds of the state legislature must be obtained (Stansel, 1994). Per capita spending increased from $770 in 1976, to $1,181 in 1981 (they year the TEL was enacted), up to $1,705 in 1986 (Stansel, 1994). Per capita spending did not seem to be slowed by the TEL.

Perhaps because of this failure to control per capita spending, several other TEL initiatives have been planned in the years since the 1981 TEL was implemented. In 1994, further supermajority requirements were put on the state ballot (Stansel, 1994). In 2006, the "Stop OverSpending" bill was introduced into the Montana House. It was proposed as Constitutional Initiative 97 (CI-97) and was planned to be included on the November 2006 Montana ballot. It was essentially TABOR as it was proposed as a constitutional amendment and it limited growth based on inflation and population growth. It was slated to be placed on a ballot after supporters were able to procure enough petition signatures to allow the measure to be put up for popular vote (Ballotpedia, 2014). However, opponents filed a lawsuit charging that CI-97 violated Montana's single-subject rule (Ballotpedia, 2014). Their contention was that this bill addressed more than one subject, and therefore could not be voted on as a constitutional amendment. This has not since been placed on a ballot.

TEL in Nebraska

Initiative Measure 423, or the Nebraska Spending Limit Amendment, was put up for public vote on November 7, 2006. If it had passed, it would have been the second TABOR state constitutional amendment in the United States. It was voted down 67% to 28% by the voters of Nebraska (Ballotpedia, 2014).

TEL in Nevada

Nevada passed a very early TEL in 1979, in the wake of the taxpayer revolt of the late 1970s which set limits only on the governor's annual budget proposal (New, 2001). This TEL did not have a direct effect on revenue generating or actual spending (New, 2001). The expenditures in the governor's proposed annual budget are held to not exceed the, "...biennial percentage growth in state population and inflation," (Deller & Stallmann, 2006, p. 546).

TEL in New Jersey

New Jersey had one of the earliest TELs in place in the US, implemented in 1976, and focusing on limiting state expenditures (Shadbegian, 1996). New Jersey's TEL is widely viewed as being the first true state TEL (Stansel, 1994). It was passed by the New Jersey state legislature, and did not provide for an immediate return of any surpluses (New, 2001). This TEL, however, was temporary, and expired in 1983 (New, 2001). Subsequently, another TEL was passed in New Jersey by the state legislature in 1990 (New, 2001). This TEL also did provide for immediate return of surpluses (New, 2001). In New Jersey, voters are able to override the TEL in cases of emergency when more debt may need to be issued (Poterba & Rueben, 1999).

In 1993, a poll conducted in New Jersey showed that 60 percent of voters would "...prefer lower taxes and fewer services..." as opposed to 33 percent who said they felt the opposite (Stansel, 1994, n.p.). New Jersey has been an early supporter of placing limits on taxation and expenditures, and, if the polls are to be believed, this sentiment is coming squarely from the voters.

TEL in North Carolina

North Carolina had been mulling a TABOR-like initiative starting as far back as 1979. However, the proposals never got off the ground through those years. According to Balfour, North Carolina was dramatically increasing the size of their government irrespective of the economic climate during this time. In his words, "A review of the 30-year period from…1979 to 2009…shows that North Carolina's state budget – even after adjusting for inflation – more than tripled in the 30 years preceding the current ["Great"] recession…" (Balfour, 2013, n. p.). Spending during this period also grew disproportionately to population increase. This is notable because during this period, specifically in 1991, North Carolina passed a statutory spending limit tied to income (Kousser, 2008).

The TABOR initiative favored by Balfour would set spending growth limits between 4 and 5 percent annually, down from the historically seen amounts of 8 to 9 percent per year (Balfour, 2013). This is a concept that North Carolina residents appear to favor as a poll indicated that likely voters would accept such a measure by a 49 percentage point margins (Balfour, 2013). A Civitas Institute poll yielded a result of 66 percent of those polled favoring a measure of this type with only 18 percent opposed (Balfour, 2013).

This TABOR amendment was proposed for the November 2012 ballot in North Carolina; however it did not meet the required 60% vote of each house of the North Carolina State Legislature in order to qualify for the ballot (Ballotpedia, 2014). It has not since been proposed and has never been on a ballot in North Carolina. Currently, only the 1991 statutory TEL has placed any kind of limits on spending and taxation in North Carolina.

TEL in Ohio

Expenditure shortfalls and tax increases during the 1990 – 1991 economic downturn in Ohio were notable. Expenditure shortfalls totaled $423.3 million in 1989, $143.7 million in 1990, $19.8 million in 1991 and $0 in 1992 (Sobel & Holcombe, 1996). During the same period, tax increases totaled $0 in 1989, $166.1 million in 1990, $170.7 million in 1991, and $326.0 million in 1992 (Sobel & Holcombe, 1996). Expenditure shortfalls decreased, however tax increases increased during this time period, showing a very volatile state economy. Ohio did eventually institute a TEL that is statutory and was passed by the Ohio state legislature in 2006, and is designed to limit spending (Mitchell, 2010).

TEL in Oklahoma

Oklahoma implemented an expenditure-limiting TEL in 1985 (Shadbegian, 1996). This TEL is constitutional and tied to inflation (Kousser, 2008). It was placed on a ballot and passed by Oklahoma voters (New, 2001). Additionally, in 1992, a constitutional amendment was passed in Oklahoma placing more stringent measures for implementing tax expenditures, specifically requiring any new tax expenditures to pass both houses of the state legislature, "…with a three-fourths majority or be approved by a majority of voters," (New, 2001, n.p.). In the five years after the implementation of the Oklahoma TEL, per capita spending increased from $1,323 in 1985 to $1,784 in 1990 (Stansel, 1994).

TEL in Oregon

Oregon was another early adopter of TEL, with a TEL in place since 1979 (Thompson & Green, 2004). This TEL, ORS 291.355, was created as a statute in the Oregon state legislature (Legislative Fiscal Office of Oregon, 2003). This TEL limited, "…state general fund appropriations to the rate of growth in personal income over the previous two calendar years and returning excess revenues, that is, more than 2 percent greater than budgeted, to the taxpayers," (Thompson & Green, 2004, p. 83). Oregon further instituted a constitutional TEL limiting revenue in 2000 and a statutory TEL on spending in 2001 (NCSL, 2010).

Oregon is one of a few states without a, "...broad-based income tax," (Thompson & Green, 2004, p. 74). The state has a history of placing limits on taxes and expenditures at the will of state voters. More recently, Measure 48, Oregon's version of TABOR, was placed on the November 7, 2006 ballot for popular vote. Supporters of the measure spent $1.3 million on a campaign to extol its virtues, while opponents spent nearly $3.3 million on a campaign to discredit the initiative (Ballotpedia, 2014). The bill was defeated 71 percent to 29 percent and has not since returned to the ballot in Oregon.

TEL in Rhode Island

Rhode Island has another very early TEL, implemented in 1977 and limiting expenditures (Shadbegian, 1996). However, this TEL was nonbinding, and as such, not particularly effective at placing real limits on actual spending and taxation (New, 2001). In 1992, Rhode Island passed a constitutional TEL to limit appropriations in an effort to strengthen their efforts towards TEL principles (NCSL, 2010).

In 2006, a TEL was introduced in Rhode Island by House Bill 7485, which would have tied any increases into increases in the Consumer Price Index (Rhode Island Federation of Teachers and Health Professionals, 2006). The effort was not successful and has not since been re-introduced.

TEL in South Carolina

South Carolina implemented an expenditure-based TEL in 1980 (Shadbegian, 1996). This TEL is constitutional and tied to the greater of income or inflation (Kousser, et. al., 2008).

This TEL can be overridden by a declaration of emergency by the state governor, and a legislative vote majority of two thirds (Stansel, 1994). The limits are up for legislative review every five years (Stansel, 1994). Of note, the, "…five-year growth rate of spending in South Carolina rose from 18.7 percentage points below the U.S. average before TEL enactment to 3.0 percentage points above the U.S. average after TEL enactment," (Stansel, 1994, n.p.).

TEL in Tennessee

According to Mary Perren of the Williamson Herald, prior to a 2006 push for a taxpayer bill of rights amendment to the Tennessee state constitution, there were already caps on spending in place. Known as the Copeland Cap, these spending limits were in place since a 1978 constitutional referendum put them on the ballot and they were passed overwhelmingly by the citizenry of Tennessee. However, they were easily and often overridden by a simple majority in the state House of Representatives (Perren, 2006).

One of the biggest issues with TELs is the initiative's crippling effect on legislators during times of unexpected crisis. According to Perren, this was deliberately addressed in the drafting of the Tennessee proposal. The Republican senators who drafted the bill increased the majority needed to override to two thirds of the house (Perren, 2006). This would effectively create a way to still create legislation in times of crisis while still keeping intact the integrity of their call to limit the governmental authority to levy taxes and spend tax dollars. And, as with many TEL initiatives, the funds that are to be saved through the restriction of spending would be set aside in a so-called "rainy day" fund to better prepare for such emergencies. This 2006 effort, however, did not make it to the Tennessee ballot.

TEL in Texas

Texas was another early adopter of TEL in state government, implementing an expenditure-limiting TEL in 1978, at the very beginning of the taxpayer revolt (Shadbegian, 1996). Texas' TEL was tied to the growth of state personal income (Shadbegian, 1996). The 1978 TEL was a constitutional initiative (Kousser, et. al., 2008). It was enacted via a referendum, and provided no provision for immediate return of surpluses (New, 2001).

TEL in West Virginia

As recently as January, 2014, the West Virginia House finance committee was reviewing a TABOR amendment, HJR 28 (Open States, 2014). This proposal was similar to most other TABOR initiatives in structure. It was one of a recent wave of TABOR-style amendments to come about in the post-Colorado TABOR era. According to LegiScan, this bill met the fate of some of the other TABOR-style amendments across the states in recent years, and "...died in committee," (2016, n.p.). It has not since been put up for referendum.

TEL in Utah

Utah was involved in the early days of TEL, however, chose not to fully implement their 1979 expenditure-limiting TEL (Shadbegian, 1996). This proposed 1979 TEL would have set a limit of, "...85% of growth in state personal income," (Shadbegian, 1996, p. 24). In 1979, the year of the proposed implementation of the Utah TEL, per capita spending was $974 (Stansel, 1994). Five years later, in 1984, per capita spending had risen to $1,350 (Stansel, 1994).

A real Utah spending limit was passed ten years after the original proposed TEL in 1989 as a statute, tied to both income and inflation (Kousser, et. al., 2007). Kousser pointed out that Utah had traditionally been a state with a, "...frugal state budget, in keeping with its political culture," (2007, p. 40), which makes it odd that they would need to pass a limit on taxation or spending as an official statutory measure. Kousser further points out that the TEL has been unsuccessful in slowing or restraining growth, with state and local spending growing through the 1990s (2007).

TEL in Washington

The voters of Washington State passed their own TEL with I-601 in 1993, which was likely modeled on the Colorado TABOR. I-601 set a cap on state expenditures of the inflation rate plus population growth (New, 2005, pg. 3). However, this was not a constitutional amendment like other TABOR initiatives, and further, was overturned by the Washington Supreme Court on grounds of unconstitutionality on February 28, 2013 (Ballotpedia, 2014). Between fiscal years 2013 and 2014, Washington experienced an increase of approximately $1.9 billion in total government spending (Ballotpedia, 2015).

TEL in Wisconsin

Wisconsin has had a statutory TEL in place since 2001, which sets a spending limit on spending, specifically limiting it to the personal income growth rate (Deller & Stallmann, 2006). This was put into place after a TEL initiative was defeated on a 1994 Wisconsin ballot (Stansel, 1994).

The TABOR amendment which was proposed in Wisconsin in 2006 was called the Taxpayer Protection Amendment (Murray, 2006). According to Murray, a then-recent Wisconsin Homeowner's Alliance poll showed that 64 percent of those surveyed would favor and vote for a TEL constitutional amendment (Murray, 2006). Clearly, there existed ground-level support for such an initiative amongst Wisconsin's voters. With a property tax listed in 2004 at 11th highest in the nation and the state's consistently being ranked among the top five most heavily taxed states (Sykes, 2004), the stage was set for this kind of groundswell.

Taking another view of Wisconsin is Reschovsky, who argues that the Wisconsin property tax burden had been falling for the ten year period of 1994 – 2004 (2004). He attributes the surge of enthusiasm for putting limits on taxation and spending to surveys containing leading questions that are administered for the expressed purpose of drumming up support for TEL (2004). Between 1994 and 2001, he posits, Wisconsin property owners enjoyed a 17% reduction in tax burden (2004). Business taxes are also low, according to Reschovsky, with Wisconsin ranking 50th in business taxes as a share of total state and local taxes (2004). Wisconsin also ranked 19th in total state and local government spending in relation to total income (2004). In other words, Wisconsin was not in as dire of a situation as those proposing TABOR may have led on. In fact, Wisconsin had unusually low business taxes as compared to personal taxes, and the result of this policy may have been an increased tax burden on private citizens, not government overspending.

As with many of the other TEL initiatives across the nation, the Wisconsin Taxpayer Protection Amendment did not pass both houses of the state legislature, and did not appear for public vote on any ballot. It has not since appeared on any Wisconsin ballot.

Table 1: Chart of States with TELs Included in this Study

Alaska	Constitutional	1982	
Arizona	Constitutional	1978	
California	Constitutional	1979	
Colorado	Constitutional	1992	Suspended for five years starting in 2005
Connecticut	Statutory	1991	
	Constitutional	1992	
Delaware	Constitutional	1978	
Florida	Constitutional	1994	
Hawaii	Constitutional	1978	
Idaho	Statutory	1980	
Indiana	Statutory	2002	
Iowa	Statutory	1992	
Louisiana	Constitutional	1991	To limit revenue
	Constitutional	1993	To limit spending
Maine	Statutory	2005	
Massachusetts	Statutory	1986	Amended in 2002
Michigan	Constitutional	1978	
Mississippi	Statutory	1982	
	Statutory	1992	
Missouri	Constitutional	1980	
	Constitutional	1996	
Montana	Statutory	1981	
Nevada	Statutory	1979	
New Jersey	Statutory	1976	
	Statutory	1990	
North Carolina	Statutory	1991	
Ohio	Statutory	2006	
Oklahoma	Constitutional	1985	
Oregon	Statutory	1979	
	Constitutional	2000	To limit revenue
	Statutory	2001	To limit spending
Rhode Island	Nonbinding	1977	
	Constitutional	1992	To limit appropriations
South Carolina	Constitutional	1980	
Tennessee	Constitutional	1978	
Texas	Constitutional	1978	
Utah	Statutory	1989	
Washington	Statutory	1993	Overturned by State Supreme Court, 2013
Wisconsin	Statutory	2001	

Table 2: Chart of Major TEL Initiatives in the U.S. since 1992

State	Year Proposed	On Ballot?	Results	Issues
Arizona	2011	No	Not Implemented	Vetoed by Governor
Colorado	1992	Yes	Implemented	Reduced in scope through legislation
Connecticut	2006	No	Not Implemented	Did not make it to ballot
Florida	1994	Yes	Implemented	
Florida	2012	Yes	Not Implemented	Defeated by popular vote
Idaho	2004	No	Not Implemented	Did not make it to ballot
Indiana	2002	Yes	Implemented	
Louisiana	1993	Yes	Implemented	
Maine	2005	Yes	Implemented	
Maine	2009	Yes	Not Implemented	Defeated by popular vote
Maryland	2009	No	Not Implemented	Did not make it to ballot
Michigan	2007	No	Not Implemented	Did not make it to ballot
Minnesota	2006	No	Not Implemented	Did not make it to ballot
Missouri	1996	Yes	Implemented	
Montana	2006	No	Not Implemented	Did not make it to ballot
Nebraska	2006	Yes	Not Implemented	Defeated by popular vote
North Carolina	2009	No	Not Implemented	Did not make it to ballot
Oregon	2001	Yes	Implemented	
Oregon	2002	Yes	Implemented	
Oregon	2006	Yes	Not Implemented	Defeated by popular vote
Ohio	2006	Yes	Implemented	
Rhode Island	2006	No	Not Implemented	Did not make it to ballot
Tennessee	2006	No	Not Implemented	Did not make it to ballot
Washington	1993	Yes	Implemented	Overturned in 2013
West Virginia	2014	No	Not Implemented	Did not make it to ballot
Wisconsin	2006	No	Not Implemented	Did not make it to ballot

2.1.2 Historical and contemporary analysis of TELs across the states

The study of effects of TELs is a relatively young field of study because TELs themselves date back only to the late 20th century. Fischel (1989) wrote extensively about Proposition 13 in California just a decade after its adoption. Proposition 13, which was a state constitutional amendment in California was approved by voters by a 2 to 1 margin in June of 1978. Fischel argues that the passing of Proposition 13 may be resultant from fallout from the case of Serrano v. Priest, which, "divorce[d] local property wealth from school spending…thus convert[ing] most property taxes into a deadweight loss (1989, p. 465). Fischel posits that sentiment among California voters at the time was that there was rampant overspending (1989). Serrano v. Priest was a case regarding the constitutionality of using property tax funds to fund public schools. The finding of the case was that relying on local resources in order to fund public schools was unconstitutional because of the nature of the wildly varying tax bases among regions in the state (Fischel, 1989). Basically the finding of the case was that some school districts would be better funded than others because their respective tax bases were better off than others. Therefore, the way the schools were funded would be inequitable. How could California police the process of funding schools under such a court finding? The solution that the California state legislature arrived at was a plan to move towards equalizing school funding by setting caps on the revenue usage in more well-to-do districts, while enhancing the funding of schools in less well-to-do districts (Fischel, 1989). On paper, this made great strides towards normalizing the conditions among schools. However, in practice, this upset great swaths of the voting public in California, especially those in more well-to-do districts, who believed that they were paying more of their fair share to cover districts with more limited resources (Fischel, 1989).

In 1976, a subsequent case colloquially called Serrano II went even further towards redistributing property tax revenues among school districts (Fischel, 1989). Specifically, the findings were that, among other requirements, "the state plus local spending, excluding a few categories...should vary by no more than $100 per pupil across districts" (Fischel, 1989, p. 465). Furthermore, the 1979 case colloquially referred to as Serrano III codified the $100 per pupil requirement of Serrano II as the sole standard, indexed for inflation (Fischel, 1989).

As these court decisions were being handed down and implemented in the state, taxpayer resentment towards this forced distribution and equalization of property tax revenue was growing.

This resentment was part of the nucleus of the then-nascent taxpayer revolt movement. After Serrano II, Proposition 13 was placed on a ballot and passed into law. Despite the revenue and expenditure caps inherent in Proposition 13, California was able to continue the progress made under the Serrano cases due to its massive surplus built up over previous years (Fischel, 1989). Change, therefore, was not immediate.

According to Fischel, several studies, including a study by Oakland (1979) and Brennan & Buchanan (1979) suggest that voters felt disenfranchised from taxing and spending decisions in the years preceding Proposition 13 (1989). This sense of disenfranchisement was reinforced by the Serrano findings. As such, this large, unchecked government was "discipline[d]" (Fischel, 1989, p. 466) by the voters in the form of Proposition 13 (Fischel, 1989). These studies suggest that Proposition 13 served as a way for the voters to reassert themselves among politicians who were engaged in overspending.

Fischel (1989) believes that Serrano actually led to Proposition 13. This is because the first Serrano case, voters in well-to-do districts still had quality schools, while higher taxation allowed for more funding for schools in less well-to-do districts (Fischel, 1989). However, after Serrano II, the $100 per pupil equalization factor led voters in more well-to-districts to feel more disenfranchised, and left out of a decision to redirect their tax dollars to areas that they felt did not affect them directly (1989). Through this progression, Fischel believes, that voters revolted and, "...Serrano caused Prop[osition] 13," (Fischel, 1989, p. 467).

Even prior to Fischel, some scholars were beginning to take a look at the effects of these types of limits on governmental authority. Wildavsky (1980), for instance, posits that the TEL movement, beginning with the taxpayer revolt of the late 1970s was inevitable. In his words, "Over the years public spending has been growing much faster than the economy," (pg. 5).

What Wildavsky is saying is that the public sector, which was once small, in much the same way that the United States started out small, has grown exponentially. It has also outpaced the growth of the nation. Regardless of the downstream effects, some type of limits must be set in order to slow the gap between public sector growth and the ability of the nation and its states to keep up. In whatever form they eventually took, TELs were, in Wildavsky's estimation, inevitable.

Another early study of TELs, by Bennett and DiLorenzo (1982), cited the Advisory Commission on Intergovernmental Relations, who conducted a detailed study of the effects of TEL-type restrictions that were put into place before 1976. The result of their study was that these types of restrictions were overall successful in reducing expenditure growth (1982). They also predicted that per capita state and local spending would be lower in the years coming after the completion of their study (1982). What Advisory Commission did not spend as much resources looking into; however, is that what the effects of reducing expenditures might be. Simply reducing expenditures does not necessarily constitute a strategic plan for long-term benefits to states.

The study of the size and growth of government is not as new as the study of TELs. In fact, this type of analysis has been studied in public policy for many years. The TEL movement is just one of the newest ways in which citizens and even governments themselves can seek to place restrictions of the size of government. Marlow and Joulfaian (1989) conducted a study on how governments actually increase themselves in size by engaging in off-budget activity in the course of responding to unexpected stimuli throughout their budget years including response to natural disasters and other unexpected phenomena (1989). In this way, the authors posit that as early as 1989, governments were able to circumvent the effects of TELs (1989). One of their conclusions was that the real size of governmental units is actually quite hard to calculate, anticipate or budget for. Similarly, TELs can provide protection against the government's ability to respond to unforeseen events. As such, TELs might reduce the size of government, but they also can serve to reduce the scope of governments. In the face of unexpected events, governments must either be allowed to temporarily suspend some of the limitations imposed on them in order to act appropriately, or they must face the consequences of inaction.

Mullins and Joyce (1996) found that TELs, "...have little effect on the overall size of the state and local public sector," (pg. 84). They also have found that TELs have led to state governments having to shoulder a larger burden for spending for most types of expenditures except for welfare (1996). This is of note, because other studies have found that TELs are indeed successful in limiting growth and expansion of governmental units through the raising of revenues or through expenditures. However, what Mullins and Joyce do say that conforms with much of the other literature on TELs is that while TELs do not necessarily increase the size of states and local public sectors, they do increase the burden on these governmental levels. As the ability to tax and spend are limited, states still are responsible for meeting the needs of their constituents, which leads to a serious dilemma. In their words, "The net effect [of TELs] is a rather substantial increase in relative state revenue responsibility," (Mullins & Joyce, 1996, pg. 89).

James and Wallis (2004) examine the effects that TABOR has had on Colorado in the decade after its adoption as an amendment to the Colorado state constitution. They refer specifically to the second half of the 2003-2004 Colorado legislative session in which the so-called "fiscal vise," (2004, p. 16) and ways to alleviate its effects were discussed. According to the authors, this so-called fiscal vice, "severely limit[ed] [Colorado's] capacity to adjust to recessionary cycles (2004, p. 16).

James & Wallis also point out that TABOR brings with it a so-called, "ratcheting effect," (2004, p. 30). This ratcheting effect is resultant from a growth formula whereby the revenues that are allowable under TABOR are calculated using spending figures from the previous year (James & Wallis, 2004). What this means is that Colorado is always locked-in to the results of the previous years, and is not as able to, "bounce back," (James & Wallis, 2004, p. 30) from unforeseeable one-time economic downturns or other emergencies. This is a major drawback of TABOR: no matter how well the legislation may be in returning surplus revenues and managing expenditures, it does not have sufficient contingency planning built-in to respond to emergencies or downturns in the economy.

On this note, Archibald and Feldman (2004) argue that there are indeed unforeseen downstream effects of placing limits such as these on the ability of governments to levy taxes and to incur expenditures. In their working paper, they study the effects of TELs on our nation's public educational infrastructure. They find that such types of limitations, "...play an important role in explaining the difficulties that have plagued many state higher education systems..." (Archibald & Feldman, 2004, pg. 30). This makes logical sense: if governments are limited in generating revenue and/or making expenditures, then there will be fewer funds available to run government programs, such as public education. As such, diminishing quality of this public good should be expected.

Mullins (2004) asserts that the underlying reason for taxpayers to be interested in enacting TELs in their state is to reduce the overall cost of their services rather than to reduce their level of services (2004). Unfortunately, services usually end up being reduced because there are less tax dollars available to pay for them. This seems to be at the heart of issues with the inefficiency of the TEL-based movement. Mullins identifies four less-than-optimal potential outcomes of TELs: 1) reduced efficiencies, 2) increased costs for service delivery, 3) reduced ability to coordinate services, and 4.) greater compliance costs (Mullins, 2004, p. 118).

One major issue with TELs, according to Mullins' article, is that, "Lower wealth districts relying on higher tax rates to produce desired levels of services may be prohibited from doing so, while higher wealth districts experience little such constraint" (Mullins, 2004, p. 144). While this may be central to conservative political dogma, does not always lead to effective governing. Limiting spending variation can be important to states (Mullins, 2004), and TELs can hinder that effort. The ability to respond to change, to limit variation across regions, to adequately serve all constituents, and to govern effectively should be central to any state government's mission. However, TELs can work to reduce a state's ability to do perform those functions.

An article by Hill, Sattler, Duritsky, O'Brien and Robey (2006) studies the effects on TELs on Ohio. In their analysis, the authors point out that there is a built-in flaw in enacting a TEL in order to curtail spending and taxation, namely, that, "A sign of a well thought out piece of legislation is one that analysts can estimate what the impacts of the law may be," (Hill, et. al., 2007, p. 64). According to the authors, certain TELs, such as the TEL in place in Ohio are written in such a vague way that there is no good way to predict what the downstream effects of enacting it might be. Additionally, because TELs as we know them are such a recent phenomena, that there does not exist a broad-base of historical data to lead contemporary analysts to be able to make predictable conclusions on whether short-terms savings will translate into long-term ones.

Brome and Saas (2006) attempt to create three overarching arguments for why proponents of TELs believe they will be successful. They believe that 1.) Proponents of TELs support the arguments that TELs stop governments from becoming larger than the public wants or needs, 2.) lower tax burdens resultant from TELs will encourage new businesses to move to the area, and 3.) TELs promote fiscal discipline (2006). The authors agree that the arguments for TELs are sound, but agree that more study is needed as there are many details that can strongly influence whether any of these three major arguments for TELs can be turned into success stories through implementation.

Some of these details include choosing the growth index, defining an appropriate base, and including provisions for overriding (2006). The growth index chosen are typically personal income growth or population growth plus in inflation (2006). Care must be taken when choosing a growth index. Even if care is chosen, however, changes to the region could negatively effect the usefulness of the index used. Similarly, selection of the base is important. The authors define base as, "…what part of the budget it covers; the level of government managing that budget; and whether the base year is fixed or changes from year to year," (2006, p. 6). Finally, provisions for overriding are helpful to include in case the government is forced to confront some unseen emergency, for which a response requiring additional expenditure may be of vital importance.

Yuan, in his 2007 study found that the presence of TELs in a state have, "…constrained local spending on public schools, as measured by a variety of indicators such as student-teacher ratios, teacher salaries, and teacher quality," (2007, p. 33). He goes on to further state that through his research, he has determined that the presence of TELs in states has had a negative effect on educational outcomes, effectively lowering the standards of education in these communities (Yuan, 2007). In other words, TELs can act as a double-edged sword: they can be effective in curtailing expenses. However, not all reductions of expenses can be viewed in isolation. What will be the lasting effects of reduced quality education? Will these lead to other downstream drains on revenue, such as mass exodus from the region as voters "vote with their feet" and leave for better-rated school districts? This is one of the limitations of TELs: there is not a wealth of historical analysis in place to measure the long-term downstream effects of such legislation.

Mitchell, Hughes and Campbell (2013) completed a study that looked at whether or not majority political parties in given states had an effect on overall budget size, budget scope, and reduction/increase in state expenditures. The authors employed SFA (Statistics Frontier Analysis) to analyze the relationship between majority political power in a state and a state's ability to reduce expenditures (Mitchell, et. al., 2013). What they found is that, first, majority political power does have an effect on budget, and second, that majority-Republican controlled governments actually led to an increase in expenditures (Mitchell, et. al., 2013). Since a major tenet of conservative politics is that smaller government is more efficient, this is a surprising finding. TELs are more traditionally associated with conservative government, as a way to check over-taxation and reduce in state expenditures, but conservative governments, according to this study, can often lead to increases in expenditures.

The authors used data from U.S. states for the period of 1977 – 2001 (Mitchell, et. al., 2013). Using this data, they made many differing findings. They found that, "...typically, the most important players in a state's budgetary process are the governor and [the] lower chamber, which makes up the governor's budget" (Mitchell, et. al., 2013, p. 13). The authors point out that when the governor and lower house are members of the same party, there is more fiscal oversight from the voters, and consequently, there may be more drive towards, "...fiscal discipline," (Mitchell, et. al., 2013, p. 13). However, they find that expenditure maximization suffers when states are "single-party," (Mitchell, et. al., 2013, p. 15), and there is less chance of the different branches of government to become involved in a "blame game," (Mitchell, et. al., 2013, p.15). They also posit that single party rule states are better able to focus on long-term goals because they are not as concerned with maintaining seats or control over the governor's office (Mitchell, 2013). Because these types of states are able to focus more on long-term goals while they gain more power, they are less likely to be able to maximize budgets, (Mitchell, 2013). One of their more interesting findings was that, "...a GOP majority in the House and/or the Senate...is more effective at increasing state expenditures than Democrats," (Mitchell, et. al., 2013, p.14). This is one of the few scholarly works about TELs that attempts to look at the movement through a political prism, which is of note, because TELs can often be highly identified with partisan politics in the US.

Toder, Rosenburg and Eng (2013) discuss the several types of tax expenditures that are currently in existence in the United States. According to the Joint Commission on Taxation (JCT), the authors assert that as of 2013, there are over 200 tax expenditures in the nation, which, "...combine to account for more than 1 trillion in lost revenue," (2013, p. 808). Tax expenditures as well as tax expenditure limitations take many forms, not all of them broad-based initiatives that affect entire states or even the nation, but some that have an effect only on individual taxpayers.

Sun (2014) takes a different approach and finds slightly different findings than Mitchell, et. al. Sun used an instrumental variable approach (2014) and found that states which employ TELs of varying degrees of severity can actually be successful in reducing property taxes, but at the same time result in "substantial increases," (2014), in sales taxes, income taxes and user charges per capita. This is an interesting finding in that it shows us that TELs can lead to immediately visible "savings" in terms of reduction of property taxes, but that reduction in state revenue collected through property tax can manifest itself increased expenses which are them passed back down to the citizen, thereby defeating the purpose of TELs. This helps support the hypothesis that TELs can result in higher state expenses, even though they purport to do just the opposite.

In his 2014 article, Sun examines the fiscal climate of local governments in the U.S. in the wake of the 2008 recession (2014). Sun points out those TELs became prominent in the U.S. largely after the tax-revolt era of the late 1970s, and that they are often introduced as an effort to curtail spending or to reduce taxes (2014). Sun questions whether TELs actually have any effect on reducing state or local revenue (2014). What sets Sun's study apart from most of the other scholarly writing on TELs is his focus on municipal governments. Sun uses a very large data set of 724 large U.S. cities with populations of over 25,000 from the years 1970 through 2006 for his study (2014). This data set sets Sun's study apart from most others because of its sheer size and magnitude. Sun's aim was to be able to look at the effects of TELs before, during and after the tax-revolt era (2014).

Sun finds that total increases of per capita sales taxes, income taxes and other user charges to be greater than the total decreases in per capita property taxes (2014). What this means is that local governments who are using TELs to try to cap spending and decrease taxes are "turn[ing] to other revenue sources to help finance public services and actually [are raising] much more in per capita sales taxes, income taxes and user charges," (Sun, 2014, p.110). Sun's study then led to an unexpected finding, that per capita property taxes can actually be reduced under TELs, much more than what is "offset by the increases in other types of revenues" (Sun, 2014, p. 112). This means that TELs actually lead to larger governments, a contradictory finding to the stated purpose of TEL.

Sun's unique approach yields some surprising findings . Using the instrumental variable approach described above, Sun found that states which employ TELs of varying degrees of severity can actually be successful in reducing property taxes, but at the same time result in "substantial increases," (2014), in sales taxes, income taxes and user charges per capita. This is an interesting finding in that it shows us that TELs can lead to immediately visible "savings" in terms of reduction of property taxes, but that reduction in state revenue collected through property tax can manifest itself increased expenses which are them passed back down to the citizen, thereby defeating the purpose of TELs. This helps support my hypothesis that TELs can result in higher state expenses, even though they purport to do just the opposite.

Staley brings a new element to the study of TELs with the concept of volatility. Volatility, in his words, "Measures of volatility provide a more complete picture of a state's economic progress because they provide an understanding of the fluctuation from equilibrium that state economies experience," (2015, p. 32). Stability and volatility are important concepts when reviewing something like TELs. TELs can either be subject to the limitations of a state budget's relative volatility or stability, or they can have an effect on it. State's abilities to keep their budgets stable are important to the state's operations and success, and therefore, TELs should be able to demonstrate that they are not detrimental to this stability.

Using panel data and time-series cross-sectional analysis of 48 states over 37 years (1969-2005), Staley (2015, p.29), finds that " states with more stringently binding tax and expenditure limitations-in addition to other political, demographic, economic, and geographic factors-are associated with greater levels of state revenue volatility." Staley takes the study of TELs one-step further and introduces the concept of stringency analysis. TELs, in Staley's estimation can vary in level of stringency, and therefore, their effects on states economies should take be judged by their relative stringency. He has assigned values from low to high, as evidenced by the following table:

Table 3: Stringency of TEL initiatives

State	Year	Stringency
Alaska	1982	Medium
Arizona	1978	Medium
Arkansas	1934	Low
California	1979	Low/medium
Colorado	1991/1992	Medium/high
Connecticut	1991/1992	Medium
Delaware	1978	Medium
Florida	1994	Medium/high
Hawaii	1978	Medium
Idaho	1980	Low
Indiana	2002	Low
Illinois	1992	Low
Louisiana	1993	Low/high
Maine	2005	Low
Maryland	1979	Low
Maine	1986	Low/medium
Michigan	1978	Medium
Mississippi	1982	Low/medium
Missouri	1980	Medium
	1996	High
Montana	1981	Medium
Nevada	1979	Medium
New Jersey	1990	Low
North Carolina	1991	Medium
Okalahoma	1985	Medium
Oregon	2000	Low/medium
	2001	
Rhode Island	1992	Low/medium
South Carolina	1980	Medium
South Dakota	1996	Medium
Tennessee	1978	Medium
Texas	1978	Medium
Utah	1989	Medium
Washington	1979	Medium
	1993	
Wisconsin	2001	Low

2.2 Conclusions drawn from the literature

The literature on the subject of TELs is vast, but it is mostly of recent vintage. This is likely because TELs themselves are a relatively recent development. The oldest articles study the earliest statutory and constitutional TELs that were enacted in the wake of the Taxpayer Revolt of the late 1970s. Recent years have brought about much more analysis of the effects that TELs have on state economies and service levels over time. Only time will tell us the long-term effects of such initiatives, but much of the literature points to an assertion that TELs in fact do perform their stated purpose of reducing expenditures and tax levies in the short term. What the literature also points to, however, is that TELs can have unexpected effects such as increased variation (or volatility) in state operations, the reduction of state services, and in some cases, increased expenses in other areas as funds begin to deplete, and an inability of states to adequately respond to crises and emergencies.

According to Figlio (1998), "voters believed that there was no effective trade-off between public and private goods." In other words, voters, emboldened by the rhetoric being traded about at the height of the Tax Revolt of the late 1970s, became convinced of the idea that reducing taxes would have a positive effect on their lives because they would be paying less of their paycheck back to their local or state government. What they did not realize, however, was that there would be a commensurate decline in the level of public services that their government could provide to them as a result of reduced tax revenues. Most, if not all, citizens of local government benefit from some type of government service, whether it be opt-out services like public schools, or services that are shared by all, such as police services, garbage pickup, and road maintenance. As such, TEL initiatives provide a double-edged sword: a smaller government, but a smaller government which can be handicapped as to how it provides services to its constituency. Still, TEL initiatives continue to appear across the states because of their promise to lower the tax burden on citizens.

While TEL initiatives remain popular and continue to appear across the states, the incidence of the adoption of constitutional TELs, passed through popular ballot or other types of referenda, are slowing down. Statutory TELs, however, continue to be introduced and passed into law. Again, the long-term effects still require study over long periods of time, but the introduction of such bills into state legislatures continues unabated.

Chapter 3. Methods

3.1 Research design and sources of data

This study uses a panel of 50 states for a five-year period from 2006 to 2011. The longer time frame used in this study allows us to capture the effects of TELs before, during, and after the start of the 2008 recession. The 2011 data are the most recent data available at the time of analysis. Data were collected from a variety of sources. Specifically, data were collected from the National Conference of State Legislatures across all fifty states regarding TELs on the state level and partisan makeup of state government (state governor, state house of representatives and state legislature) year by year for the calendar years 2006 through 2011. The data on the party makeup of the governor's office, house and senate of each of the fifty United States for the years 2006 through 2011 were collected from Multistate Associates Incorporated and Polidata Demographic and Political Guides. The financial data were collected from the Census Bureau's Annual Survey of State Government Finances and Census of Government, and data on TELs were based on the Mullins and Wallin's (2004) article. Data were also collected regarding whether or not any tax expenditure limitations were in effect in those states during that same time period. Further, data were collected about total revenues and expenses by type incurred by those states during that same time period.

Table 4 presents a summary of variables and sources of data.

Table 4: Variables and Sources of Data

N	Variable		Source
2	Presence of Tax Expenditure Limitation (TEL) in state (0-no presence, 1-presence)	tel	National Conference of State Legislatures
3	State spending for police per capita	policepc	United States Census Bureau
4	State general expenditures per capita	genexppc	United States Census Bureau
5	State spending for corrections per capita	corrpc	United States Census Bureau
6	State spending for education per capita	educpc	United States Census Bureau
7	State spending for highways per capita	highwyspc	United States Census Bureau
8	State spending for parks per capita	parkspc	United States Census Bureau
9	State spending for natural resources per capita	natrespc	United States Census Bureau
10	State spending for hospitals per capita	hospitalspc	United States Census Bureau
11	State spending for healthcare per capita	healthpc	United States Census Bureau
12	State debt interest payments per capita	debtintpc	United States Census Bureau
13	State total debt per capita	generaldint	United States Census Bureau
14	Total revenue per capita	totalrevpc	

3.2 Hypotheses

Based on literature review and historical records on TEL, a set of hypotheses were formulated and tested. The hypotheses consider the impact of the presence of TELs in states on different types of state outlays.

Hypothesis 1: *The presence of TEL in a state has a negative impact on state general expenditures.*

Hypothesis 2: *The presence of TEL in a state has a negative impact on state spending for police.*

Hypothesis 3: *The presence of TEL in a state has a negative impact on state spending for corrections.*

Hypothesis 4: *The presence of TEL in a state has a negative impact on state spending for education.*

Hypothesis 5: *The presence of TEL in a state has a negative impact on state spending for highways.*

Hypothesis 6: *The presence of TEL in a state has a negative impact on state spending for parks.*

Hypothesis 7: *The presence of TEL in a state has a negative impact on state spending for natural resources.*

Hypothesis 8: *The presence of TEL in a state has a negative impact on state spending for hospitals.*

Hypothesis 9: *The presence of TEL in a state has a negative impact on state spending for healthcare.*

Hypothesis 10: *The presence of TEL in a state increases the state outlays on debt interest payments.*

Hypothesis 11: *The presence of TEL in a state increases the state outlays on total debt.*

3.3 Measures and variables

Populations were used to control for state size, and all independent and control variables are per capita variables.

The vector of independent variables contains two types of variables: the control variables and the hypothesis variables.

1) *Independent variable*: Tax Expenditure Limitations

2) *Control variables*

Our benchmark specification included one control variable: the state's total revenues per capita to control for the state's fiscal solvency. This variable is expected to be positively associated with different types of states expenditures.

3) *Dependent variables*:

There are two groups of dependent variables.

Expenditures:

1. Spending on police per capita
2. Spending on corrections per capita
3. Spending on education per capita
4. Spending on highways per capita
5. Spending on parks per capita
6. Spending on natural resources per capita
7. Spending on hospitals per capita
8. Spending on healthcare per capita
9. Spending on parks per capita
10. Spending on administration per capita

Debt:

1. Debt interest payments per capita
2. Total debt per capita in the end of year

Table 5: Descriptive Statistics of Variables

Variable Obs	Variable	Obs	Mean	Std. Dev.	Min	Max
totalrevpc	State's total revenues per capita	300	6.4043	2.540106	1.51	23.71
genexppc	General expense spending per capita	300	5.374833	1.58334	3.3	14.17
educpc	Spending on education per capita	300	1.915767	0.464785	1.14	3.71
hospitalspc	Spending on hospitals per capita	300	0.1753	0.133721	0	0.5
healthpc	Spending on healthcare per capita	300	0.1951	0.106261	0.04	0.54
highwyspc	Spending on highways per capita	300	0.4345	0.254393	0.17	2.03
policepc	Spending on police per capita	300	0.050433	0.027042	0.01	0.16
corrpc	Spending on corrections per capita	300	0.156	0.053324	0.08	0.39
natrespc	Spending on natural resources per capita	300	0.1034	0.104384	0.02	0.75
parkspc	Spending on parks per capita	300	0.024267	0.015895	0	0.08
govadmpc	Spending on administration per	300	0.209433	0.127455	0.06	0.86

	capita					
generaldint	General debt interest	300	873194.6	1096243	44342	7302166
endfydebtpc	End of fiscal year debt per capita	300	3.635033	2.147466	0.63	12.13
tel	Tax expenditure limitation	300	0.623333	0.48536	0	1
debtintpc	Debt interest payments per capita	300	0.166467	0.105591	0.03	0.57
genexppc	General expense per capita	300	5.374833	1.58334	3.3	14.17

3.4 Research model

The impact of TELs on municipal revenue were estimated through a set of regressions expressed in the following equation:

$$Exp_{it} = \alpha_1 TEL_{it} + \alpha X_{it} + \beta F_{it} + u_i + \theta_t + \varepsilon_{it}$$

where Exp_{it} is different type of state expenditure or expenditure from different sources for state i in year t in different model specifications, TELit is a dummy variable for state i in year t (1=state i in year t subject to TELs; 0 = state i in year t not subject to TELs), X is a vector of control variable (total state revenue per capita), F is a vector of our hypothesis variables (mainly the different types of outlays per capita and the debt and interest payments per capita), u is a state fixed effect (for a fixed-effects model), θ is a time fixed effect, ε_{it} is the error term, and *i* and *t* are, respectively, the state and time subscripts. We consider the X_{it} an important variable that should be positively correlated with state expenditure.

Time series data traditionally brings about issues related to autocorrelation. It is reasonable to expect contemporaneous correlation of variables across all fifty states, however, if serial correlation is present in an idiosyncratic error, then a first-differenced model is more efficient than a fixed effects model. Econometrically, a choice needed to be made between running a fixed effect or random effect model. The Hausman test was chosen and determined that the random effect model was the proper specification as it had better p-values. The random effect model also enabled us to avoid the problem of time-invariant region characteristics (fixed effects), such as geography and demographics that may be correlated with the explanatory variables. The Hausman test for random effects versus fixed effects was used to choose between the more efficient random effect model (RE) and the more consistent fixed effect model (FE). Both the RE and the FE models assume strict exogeneity. If the state-specific error is correlated with the covariates, FE models can address this by transforming the model to remove the state-specific error. The FE model subtracts the within-state average from each observation on that state to remove the unit-specific effect. FE models cannot remove time-varying unobserved effects, and FE removes all time-constant effects from the model, such as the duration of capital budgeting if it didn't change in some states. The FE model also trades consistency for efficiency. RE models, on the other hand, assume that the unobserved effects do not bias the estimates. RE models add the stringent assumption that the state-specific error is equal to zero. The null hypothesis for the Hausman test assumes that the differences in the coefficients between the RE and the FE models are not systematic or that the state-specific error is uncorrelated with the covariates. The results from the Hausman test suggest that the null hypothesis was accepted. The fixed effects model was rejected in favor of the random effects model because it is more efficient model (Prob>chi2 = 0.993).

A second econometric problem concerns the autocorrelations of the disturbances that can involve biased coefficients affecting the interpretation of our results. This problem was solved by applying the standard Durbin-Watson d statistic to test for autocorrelated errors. Woolridge's first differenced test was used to test for serial correlation in the idiosyncratic error. For this test, the current period residuals were regressed on the previous period residuals. If the idiosyncratic errors are homoscedastic, the first-differenced errors will have a correlation coefficient of -0.5. When the current period residuals were regressed on the previous period residuals, the first-differenced errors had a correlation effect of 0.007. This was significantly different from -0.5 at the 0.001 level. This test indicates that either a fixed effect (FE GLS) or random effect (RE) GLS regression should be employed.

Table 6: Results

Hypotheses	Coefficient	Supported/not supported
Hypothesis 1: The presence of TELs in state has a negative impact on state general expenditures.	-0.123†	Marginally supported
Hypothesis 2: The presence of TELs in state has a negative impact on state spending on police.	-0.007*	Marginally supported
Hypothesis 3: The presence of TELs in state has a negative impact on state spending for corrections.	0.017***	Supported
Hypothesis 4: The presence of TELs in state has a negative impact on state spending on education.	0.01**	Supported
Hypothesis 5: The presence of TELs in state has a negative impact on state spending on highways	0.05**	Supported
Hypothesis 6: The presence of TELs in state has a negative impact on state spending on parks.	0.004*	Marginally supported
Hypothesis 7: The presence of TELs in state has a negative impact on state spending on natural resources.	0.023***	Supported
Hypothesis 8: The presence of TELs in state has a negative impact on state spending on hospitals.	0.011**	Not supported
Hypothesis 9: The presence of TELs in state has a negative impact on state spending on healthcare.	0.007**	Not supported
Hypothesis 10: The presence of TELs in state increases state spending on debt interest payments	0.032***	Supported
Hypothesis 11: The presence of TELs in state increases state spending on total debt.	0.637†	Marginally supported

† if $p < 0.10$, * if $p < 0.05$; ** if $p < 0.01$; *** if $p < 0.001$.

3.5 Notes on state spending trends

According to a report covering state spending over the years 2010-2012, prepared by the National Association of State Budget Officers, "State expenditures have seen tremendous shifts over the past several years due to the ramifications of the recent national recession," (NASBO, 2012, p. 1). Of note, during this period, expenses for elementary and secondary education first increased slightly in 2011, then began dropping off by 1.9% in 2012 (NASBO, 2012). During this same period, higher education expenses followed a similar path, first increasing by 3.8% in 2011, then taking a decline of 4.1% in 2012. Corrections expenditures, which increased by 1.1% in 2011, continued increasing by 2.5% in 2012 (NASBO, 2012).

3.5 Practice model guiding the study

For this study, the random effect model was used for 50 states during the time period of 2006 through 2011. Using panel data analysis, this study analyzed how stringently binding tax and expenditure limitations—in addition to other financial and political factors—affected lower levels of state expenditures for police, parks, natural resources and highway expenditures.

This model enabled us to avoid the problem of time-invariant region characteristics (fixed effects), such as geography and demographics that may be correlated with the explanatory variables. The Hausman test for random effects versus fixed effects was used to choose between the more efficient random effect model (RE) and the more consistent fixed effect model (FE).

Chapter 4. Results

4.1 Descriptive data

Variables were tested by random effect (RE) GLS regression using Stata 13 software. Any P>z result less than 0.05 was considered statistically significant for the purposes of this test. Several expense variables were analyzed using the formula xtreg [variable] tel totalreven, where "tel" referred to whether or not a state had enacted any tax expenditure limitations, and "totalreven" referred to the total revenue of the relevant states during this time period. Variables tested were: police, education, government administration, parks, natural resources, highways, corrections and hospitals.

Police expenditures were determined to be statistically significant with a P>z result of 0.049. Education was not significant at 0.393. Government administration was also not significant with results at 0.556. Parks were determined to be statistically significant at 0.047. Similarly, natural resources were significant at 0.010. Highways were also statistically significant at 0.017. Hospitals, finally, were not with a P>z value of 0.533.

It can be determined that states that have enacted TELs have had significant difficulty dealing with police, parks, natural resource, and highway expenses. TELs were not helpful for states in terms of keeping expenses down relative to total revenues in these important state expenditure categories.

Parks expenditures, natural resource expenditures, and highway expenditures were also considered statistically significant, and the results showed that despite (or perhaps as a result of) the presence of TELs, expenses in these categories actually increased related to total revenue during the period of time studied (2006 – 2011).

4.2 Inferential data

According to Lav, et. al. (2010), "it is worth noting that the problems states…are facing are overwhelmingly a result of declining revenue and not…of excessive spending or mismanagement…" (2010, pg. 6). They go on to point out that between 2001 and 2010, state spending did not increase significantly, and actually fell relative to spending in 2001, falling more precipitously during 2010 (Lav, et. al., 2010).

Why this is important to note is that some programs in states can actually receive federal help, including healthcare such as Medicare, and education through education block grants and ARRA funding that came through in 2010. Perhaps police, parks, natural resources and highway expenditures do not get the same type of federal relief as some other categories? If this is so, it might explain why these categories actually led to an increase in expenditures on the state level during times of tax expenditure limitations.

Chapter 5. Discussion

5.1 Discussion related to the findings of the study

The idea of a TEL initiative as public referendum is a relatively new concept in the history of our nation. Even though the United States was founded on principles of proper representation before taxation, as our country grew, the need for more revenue was sated by the increasing ability of the state to levy more taxes. As this has happened, the line of appropriate taxation has been severely blurred. There are the numerous administrative levels of government (state, county, municipal) that have this authority, and the opportunities for ambiguity escalate exponentially. Because of this, it was only a matter of time before taxpayer frustration evolved into political action in the form of legislation and constitutional amendments to cap the government's ability to levy taxes without recourse.

The first TABOR initiative took place in Colorado in 1992 with an amendment to the state's constitution placing a cap on spending and taxation. Some of the unintended side effects of this amendment were limited ability of the government to respond to one-time fiscal crises and emergencies, and a reduction of the state's many government-provided social programs. While a reduction in the size of government may have been one of the goals of this endeavor, there are some programs such as healthcare and education that regardless of partisan leaning, the public does not wish to see done away with.

Many TEL initiatives have been proposed throughout the country since the Colorado amendment in 1992. However, many of them sit permanently tabled as lawmakers try to craft ways for avoiding the negative impacts associated with Colorado's TABOR. And, again, TELs are a highly partisan issue, divided along party lines with many conservative voices touting its virtues, and the more liberal among its loudest dissenters. Due to this dichotomy, TEL initiatives seem to have a hard time passing into law to the degree that they are proposed.

During great recession budget crises have gripped the nation. Many states, localities and municipalities are struggling to stay afloat. One of the primary means they have to stay in the black—other than borrowing—is the ability to levy taxes. The problem is that capping the taxation authority of any level of government certainly limits what they can tax, but in doing so, it limits their overall power. Additionally, this kind of measure leads to decreasing service to the constituents, because as time goes on, the costs of services only increase. With a government less able to spend dollars providing services, the quality, quantity or both of the services decreases. The long-term effects of TEL initiatives must be carefully measured, then the findings applied on a case-by-case basis to any such proposed initiatives.

This researcher believes that the literature review and analysis has revealed that TEL initiatives do limit the size of governmental units. They also, however, limit the authority of government, and in doing so, limit the ability of government to respond quickly and effectively to unforeseen crises. Aberrations, such as one-year recessions, and unexpected emergency situations create an unrealistic standard by which to measure future increases, and therefore make it nearly impossible to recover from them. Additionally, according to the testing performed here, they do not ensure that the amount of expenditures will not increase as the power of the government decreases. In fact, this researcher has found that some expenditures can go up in relation to total revenue when TEL initiatives are in place.

TEL seems to be modeled on a flawed formula, which many other states have picked up on, explaining why no such measures have been enacted in any other state. Colorado itself placed a moratorium on their own TEL, the TABOR amendment, in 2005 after witnessing a severe decline in funding for programs and a standing of the state nationally.

5.2 Strengths and limitations

One major limitation of this study is the period of time that has been taken into consideration. The years 2006 through 2010 were, at the time of writing, the most recent block of five consecutive years for which detailed information on state expenditures was easily available. Additionally, for more recent years, pending legislation has not yet been passed, either constitutionally or statutorily. Previous years, going back to the beginning of the Taxpayer Revolt, which would have included the mid-1970s, would have been a welcome addition to the study as well, but detailed records of state expenditures by expenditure type were not easily available.

Other studies used greater time periods, such as Mitchell, et. al. (2013) which used a time period that spanned 1977 – 2001. This data set allowed the authors to begin looking at the effects of TELs from the very beginning of the movement. Using this much larger data set, the authors were able to examine many more findings including political ramifications of TELs. Sun's 2014 study analyzed data from 724 large U.S. cities from 1970 – 2006. Sun's study not only utilized a longer time period, but focused directly on a large amount of major cities across the nation. The time period also covered years before the Taxpayer Revolt began to take hold. Sun was able to come to the conclusions that some TELs actually lead to larger governments, a finding that contradicts much of TEL ideology. This more expansive data set may have helped the author reach a more robust and varied set of conclusions, given the breadth of the data.

One strength of its study is its relatively expansive data set that encompassed expenditure types across all 50 states. Many studies, such as James and Wallis (2004) focus only on one major initiative, such as Colorado's TABOR. This study has a much wider data set and can provide more context by looking across the states. This study examined the scope of the TEL movement across the nation over a five year period, and emphasized how prevalent the movement has become in recent years.

5.3 Future directions

In the twenty plus years since the implementation of the original TABOR amendment in Colorado, much has been learned from their mistakes. However, the popularity of proposing TELs around the nation has not declined. It has, though, been much more difficult for other governmental units to pass because of the highly partisan nature of its support and because of the many highly-visible instances of problems resulting from TABOR. Recently, such proposals have begun to address the many ill effects of TABOR in hopes of enacting it in new locales while mitigating its possible negative effects. Despite the drop off in broad appeal, the tenets behind this type of initiative remain popular with many in the U.S. Future circumstances may bring about resurgence in popular appeal for this type of legislation.

Future research into this field would include further analysis of municipal governments and municipal TELs. Other than Sun's study, there is a gap in the literature when it comes to TEL legislation in cities as opposed to state governments. Sun's large data set which was able to show changes over an over 35-year period is also a desirable way to look at larger blocks of data and analyze and interpret broader trends.

Chapter 6. Conclusions

According to Maher and Deller (2010), "The fiscal pressure facing local governments today is more severe than has been experienced at any time in the past 50 years," (p. 3). While this statement was made over 5 years prior to the writing of this paper, it holds true that fiscal pressure on local governments continue to rise. As such, tough choices must be made in order for state governments to be able to adequately provide services for their constituents. States like Illinois, face dire budget crises, compounded by high public pension obligations that are forcing the state to take drastic action.

This fiscal pressure, however, has been occurring since the Taxpayer Revolt of the mid-1970s. Maher and Deller (2010) refer to the "...near fiscal meltdown," (pg. 4) of major cities across the U.S. during this time period. Because of this increasing fiscal pressure, the incidents of TELs have increased in the same time period (Maher and Deller, 2010).

Even after the initial, high-profile success of TABOR in Colorado, which have since been tempered by suspensions and re-evaluating, TELs continue to be a popular solution to the problem of high taxes. There are many TEL laws, statutory and constitutional, on the books across the US, with varying levels of stringency, that guide public policy on the state and local level. Some of these TELs have been in existence for nearly forty years, others only a few, so there has been no multi-generational study of the effects over long periods of time. Those types of studies are only now appearing as we reach the first half-century of organized TEL initiatives.

One thing is clear: as with any such ordinances, there is almost always a trade-off of some type. The most striking argument against TELs is that for every reduction in taxes, there canl also be a commensurate reduction in the quality or quantity of public services provided to constituents. There will certainly be governments that are able to use their existing tax bases and build up sufficient war chests to be able to respond quickly and efficiently to emergent situations, but, any type of TEL legislation will have some effect on the ability of a government to quickly respond or raise funds.

TELs can have an impact, as they are designed to, on the size of government. They can limit governmental scope and authority. This can be either a good or bad thing depending on who is deciding and what their goals and needs are. One of the results of this study is that TELs can also have a negative effect on public service delivery, and certain combinations of TELs can actually lead to increases of expenses in unexpected areas. There is no perfect formula for permanently capping expenses and taxation authority in something as ever-changing and ever-adapting as a democratically-elected government serving a diverse group of Americans.

Chapter 7. Implications of the study

TELs show no sign of disappearing from US legislatures or voter ballots. As such, comprehensive study and analysis is needed in order to determine whether or not TELs are capable of doing what they purport to do (i.e. reducing the size and authority of government), and whether or not their effects are beneficial or detrimental to citizens. It is clear from this study, that TELs can have effects on government spending, as well as on service delivery to citizens. Since citizens depend on their governments for a variety of services, this relationship is important. Additionally, since there have been numerous fiscal crises across the nation before, during and since the economic downturn which began in 2008, the implications of state and local government spending and taxation are commensurately magnified.

TELs are a citizen-led attempt to reduce the power of government. This represents a shift in traditional ways of interacting with governments with regards to public service delivery. If such initiatives are to work, long-term study of their possible effects must be carried out. This study hopefully will add to the ever-growing body of literature which is developing around this relatively new phenomenon and perhaps further discussion on what TELs can do, how they can be used effectively, and to what kinds of change they may lead.

Hopefully, this study will lead to further analysis of the TEL movement and allow those legislatures currently considering enacting a TEL, or those with a TEL on the books to examine the potential downstream effects of such cuts, limits or caps. Reducing or limiting one type of expense may unexpectedly lead to an increase of another and relationships that were not readily apparent may make themselves known in less than ideal ways. Great care must be taken when placing limits on government.

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